



ENTERPRISE ZONE PROGRAM OVERVIEW

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OLR REPORTS FOR MORE INFORMATION

Enterprise Zones ([2011-R-0307](#))—an update in part of 2007-R-446; provides a detailed description of enterprise zones and related economic development zones and the benefits available in the zones.

History of Changes to the Enterprise Zone Program ([2011-R-0314](#))—provides a legislative history of the enterprise zone program.

Enterprise Zone Property Tax Exemption ([2008-R-0461](#))—focuses on the legislative intent and history of the program's residential property tax benefits.

Types of Business Incentive Zones ([2007-R-0446](#))—provides a comprehensive overview of the different types of zones, and includes information on the program's administration and evaluation criteria.

ISSUE

This report answers a series of frequently asked questions about Connecticut's enterprise zone program. For more detailed information about the program, see the reports listed in the box.

WHAT IS THE ENTERPRISE ZONE PROGRAM?

The enterprise zone program offers various tax incentives and other benefits to businesses that start up in or improve real property in areas designated as enterprise zones. This designation is one of several geographic designations the state uses to target economic development assistance (e.g., distressed municipalities).

WHAT IS THE PROCESS FOR DESIGNATING ENTERPRISE ZONES?

Enterprise zones have been designated, a few at a time, over several decades. The legislature, municipalities, and the Department of Economic and Community Development (DECD) each play a role in the zone designation process. The legislature authorizes the DECD commissioner to approve a specified number of zones and establishes the criteria that proposed zones must

meet to be approved. (The number of zones and criteria has changed over time. See below.)

Municipalities then propose, for designation, areas that meet the statutory criteria. (A proposed zone may cover up to two census tracts that (1) meet specific poverty criteria and (2) allow industrial and commercial uses.) The DECD commissioner then reviews and approves or rejects the zone.

HOW HAS THE PROGRAM CHANGED SINCE ITS INCEPTION?

In 1981, Connecticut became the first state to establish an enterprise zone program when the legislature authorized the DECD commissioner to designate six zones based on statutory criteria (PA 81-445). Over the past several decades, the legislature has made many changes to the program, including expanding the number of zones, changing the eligibility criteria for zone designation, and adding to the types of businesses eligible for benefits under the program.

In most instances, the legislature authorized the DECD commissioner to approve a specified number of zones according to broad eligibility criteria. For example, the initial two designation rounds authorized a total of 10 zones—four in municipalities with a population of 80,000 or more and six in municipalities with a population of fewer than 80,000. The proposed zones also had to meet specific poverty criteria (e.g., 25% of the proposed zone's population had to be below the federal poverty level or unemployed).

However, over time, the legislature has shifted from this practice, authorizing additional zones based on narrower designation criteria. For example, in 1993 it authorized two additional enterprise zones in municipalities with a population of 80,000 or less that are affected by plant or military base closings ([PA 93-331](#)). In 2014, it required the commissioner to approve two additional zones based on population criteria tailored for two specific towns (Thomaston and Wallingford) ([PA 14-217, § 177](#)). It has also authorized the DECD commissioner to designate zones, under narrow criteria, in addition to those authorized in statute. For a comprehensive legislative history, see [OLR 2011-R-0314](#).

HOW MANY ZONES ARE CURRENTLY DESIGNATED?

There are 18 enterprise zones currently designated, and one (Wallingford) which has been authorized by the legislature but not yet designated by DECD. The designated enterprise zones are in the following towns: Bridgeport, Bristol, East Hartford, Groton, Hamden, Hartford, Meriden, Middletown, New Britain, New Haven, New London, Norwalk, Norwich, Southington, Stamford, Thomaston, Waterbury, and Windham.

WHAT ARE THE ZONES' BENEFITS?

The zones' benefits are generally available to businesses that start up in the zone or that improve property or relocate there. The benefits, detailed in [OLR 2011-R-0307](#), include:

- **a five-year, state-reimbursed, 80% property tax exemption** for improving or acquiring "manufacturing facilities" (see below) and acquiring machinery and equipment. The state generally reimburses the municipality for half the forgone property tax revenue ([CGS § 12-81 \(59\)](#))
- **a 10-year, 25% corporate business tax credit** attributed to facility improvements. The credit increases to 50% for certain businesses that meet resident employment criteria ([CGS § 12-217e](#))
- **a seven-year property tax exemption** (100% in first two years, 50% in third, and a decrease in 10% in each of the remaining four years), with no state reimbursement, for commercial and residential real property improvements that do not qualify for the 5-year, 80% exemption (other than improvements to manufacturing facilities, as defined below) ([CGS § 32-71](#))
- **a 10-year corporate business tax credit** (100% for first three years, 50% for next seven years) for starting a new business in an enterprise zone (business must employ a certain number of residents to qualify) ([CGS § 12-217v](#)).

WHAT IS A MANUFACTURING FACILITY?

Many enterprise zone benefits are available only to "manufacturing facilities," but the statutory definition of this term includes certain facilities used for non-manufacturing purposes ([CGS § 32-9p\(d\)](#)).

For the purpose of the enterprise zone program, "manufacturing facilities" refers to any plant, building, or other real property improvement that is located in an enterprise zone and used as follows:

1. for manufacturing, processing, or assembling raw materials, parts, or manufactured products;
2. for manufacturing-related research and development;
3. for servicing industrial machinery and equipment;
4. by a business that the commissioner determines (1) will materially contribute to the economy ("economic base business") or (2) is part of an economic cluster (i.e., a group of industries linked by customer, supplier, or other relationships) ([CGS § 32-222](#)); or

5. by a business engaged in any of a number of specified industries, including fishing, hunting, and trapping; other types of manufacturing (e.g., food and beverage manufacturing); transportation and warehousing; certain financial and insurance services; certain educational services; child day care services; computer hardware, software, or networking; and telecommunications or communications.

WHAT IS A TARGETED INVESTMENT COMMUNITY?

The law designates municipalities that contain enterprise zones as “targeted investment communities” (TICs), and businesses located in these municipalities, but outside the enterprise zone, are eligible for certain benefits, including:

- ***a five-year, state-reimbursed property tax exemption*** for improving “manufacturing facilities.” The exemption varies depending on the value of improvements, up to a maximum of 80% for improvements valued over \$90 million ([CGS § 12-81\(60\)](#))
- ***a 10-year corporate business tax credit*** attributed to improving “manufacturing facilities” in TICs. The credit varies from 15% to 50% depending on the number of new employees ([CGS § 12-217e](#))

Additional benefits available to TIC businesses under other programs are detailed in Table 6 of [2011-R-0307](#).

ARE THERE OTHER TYPES OF ZONES SIMILAR TO ENTERPRISE ZONES?

Yes. The legislature has authorized similar types of zones targeting specific facilities, business sectors, and geographic areas. They are:

- Entertainment District ([CGS § 32-76](#))
- Railroad Depot Zone ([CGS § 32-75a](#))
- Qualified Manufacturing Plant ([CGS § 32-75c\(b\)](#))
- Contiguous Municipality Zone ([CGS § 32-70\(b\)\(3\)](#))
- Defense Plant Zone ([CGS § 32-56](#))
- Enterprise Corridor Zone ([CGS § 32-80](#))
- Bioscience Enterprise Corridor Zone ([CGS § 32-41s](#))
- Airport Development Zone ([CGS § 32-75d](#))

Enterprise zone benefits are generally available to businesses in these zones. For more information, see [OLR 2011-R-0307](#).

WHAT HAS BEEN THE ECONOMIC IMPACT OF ENTERPRISE ZONES?

There is not a lot of research on the economic impact of Connecticut's enterprise zones. The Program Review and Investigations Committee (PRI) staff analyzed the program in 1997 and DECD reports on the program in its strategic plan, but neither have drawn definitive conclusions about the program's impact or effectiveness. However, many researchers have analyzed similar enterprise zone programs in other states, and their conclusions may apply to Connecticut.

1997 Program Review and Investigations Study

PRI staff, in its 1997 [analysis](#) of Connecticut's enterprise zones, evaluated the program's effectiveness based on (1) program goals set by the legislature, (2) changing need (poverty) in enterprise zone municipalities, and (3) views of program participants.

PRI determined the program was meeting two of its goals (increasing private investment and expanding the local tax base), but it was unclear if it was meeting the other two (increasing jobs and reducing property abandonment). Because the zones are generally economically distressed areas that were designated using poverty measures as criteria, PRI examined how poverty had changed in municipalities with enterprise zones. It found that poverty had not changed much from the 1980 census to the 1990 census (the most recent at the time), and poverty actually got worse in some of the zones. When PRI spoke to program participants, they found that people generally believed the zones were an important economic development tool and provided a "psychological boost" to businesses in the area and looking to relocate there. However, some participants said the incentives were less of a draw to the zone than other factors, such as the area's manufacturing talent.

Although results varied between the zones, ultimately PRI concluded that the program's outputs mostly outweighed their costs, in large part because the program's cost was not very high. However, they were unable to link any economic growth directly to incentives provided under the program and note that areas that experienced growth may have done so without enterprise zone incentives.

DECD Strategic Plan

The law requires DECD to review and evaluate the effectiveness of enterprise zones in its strategic plan ([CGS § 32-1o](#)). In its [2015 strategic plan](#), DECD measured the program's performance using three metrics: (1) number of jobs created; (2) number of companies certified; and (3) square footage leased, purchased,

expanded, or renovated. From November 1, 2013 to October 31, 2014, DECD certified 45 companies for benefits and received another 65 pre-applications for certification in 2015. Table 1 shows the 2014 data on jobs and square footage.

Table 1: FY 2014 Enterprise Zones Statistical Summary

	<i>Area (in ft²)</i>	<i>Existing Jobs</i>	<i>Projected Jobs</i>	<i>Total Jobs</i>
Construction	101,425	618	0	618
Expansion	6,400	67	2	69
Leased Property	960,236	531	542	1,073
TOTAL	1,068,061	1,216	544	1,760

Source: DECD, OBD

According to DECD, the state spends approximately \$8.4 million each year to reimburse participating towns 50% of the tax abatement received by eligible businesses in enterprise zones. DECD states that the program “offers a low cost-per-job compared to DECD’s loan and grant portfolio” because of the relatively low cost to the state per job. The average enterprise zone cost-per-job for 2014 was \$4,772, compared to \$11,185 per job for loan and grant recipients in FY 2015. The most active municipalities were the cities of Bridgeport and Waterbury. These represent 505,498 square feet of space and 358 new jobs in these distressed communities.

The plan draws no conclusions about whether the program induced businesses to improve property and create jobs in the zones or funded them for decisions they would have otherwise made.

Evaluation of Other States’ Zones

Program evaluations of other states’ zones include several findings that could apply to Connecticut. Some of those findings are outlined in a 2005 policy brief from the Minnesota legislature which provides an overview of the research conducted on enterprise zones around the country ([*Enterprise Zones: A Review of Economic Theory and Empirical Evidence*](#), Minnesota House of Representatives Research Department, 2005). The brief discusses the empirical research, methodologies, conclusions, and policy recommendations derived from the research.

The brief notes that the studies and their results vary widely and deliver mixed conclusions but concludes overall that “most social scientists uncover little net benefit to enterprise zones.” Research on the effectiveness of zones’ tax incentives suggests that certain preexisting regional conditions may make the zones more economically successful. Specifically, incentives seem to be more effective in areas with low unemployment rates, high levels of investment, and suburbs. These may

be locations that investors might already expect to be profitable or close to being profitable. It also notes that, overall, tax incentives seem to have small positive effects, but they may be most effective in already economically viable areas.

The brief notes that although researchers have not reached a consensus on the zone's employment effects, they have identified certain patterns:

- larger financial incentives seem to make it more likely that a zone will create jobs (although at some point, the state may spend too much money per job and other policies may be better suited to develop an area);
- areas with fewer barriers to business success (e.g., polluted site cleanup, few skilled laborers, etc.) are more likely to be successful;
- employment may shift, rather than grow, as employers that would have located outside the zone may locate in the zone to take advantage of benefits;
- zone development may not occur if the quality of public services suffers (e.g., roads, schools, job training, etc.); and
- subsidies that come with too many strings may stifle job growth.

The brief also lists various policy recommendations the studies proposed. They include:

- evaluate regularly the zone's effects;
- find ways to limit incentives only to firms that are induced to locate in the area because of the program;
- choose the right set of tax incentives and other benefits (e.g., consider who benefits from an incentive and focus on incentives that are likely to produce economy-wide returns);
- increase the type and amount of benefits in areas with more barriers to business and job growth, and for areas with severe barriers, consider other policies;
- if the goal is to increase employment among local residents, consider whether other policies may be needed (studies have found that zones in urban areas have little effect on residents' unemployment);
- keep regulations and restrictions to a minimum; and
- avoid creating too many enterprise zones, because this could dilute the effect of individual zones.

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